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# Shaping Banking's Next Business Models

The banking industry is facing a pivotal moment in its evolution today. In 2023, global banks generated a staggering \$7 trillion in revenue and \$1.1 trillion in net income, boasting robust levels of capital and liquidity. Despite this financial strength, a price-to-book ratio of 0.9—the lowest across all industries—reveals the market's skepticism about future value creation. The message is clear: to unlock the full potential of their balance sheets and regain investor confidence, banks must transcend traditional paradigms and embrace new business models tailored to the digitally driven, customer-centric era.

The transformation underway is not about minor adjustments or tactical improvements. Rather for some years now, it has demanded a fundamental realignment of how banks integrate into daily life, how they compete through ecosystem participation, and how they differentiate themselves with technology-enabled, data-rich offerings. Banks that embrace these shifts can reclaim growth, realize higher profitability, and capture a share of the estimated \$20 trillion value creation opportunity as the sector’s valuations revert to historical levels. Yet, bridging this gap demands strategic vision, organizational agility, and the courage to co-innovate with partners and customers.

Among the emerging business models, three stand out: digital-only propositions that redefine customer access and experience; embedded banking and Banking-as-a-Service (BaaS) models that integrate finance seamlessly into third-party platforms; and marketplaces that orchestrate a wide array of products and services. Each represents a critical pillar in the future of banking—together, they can reshape the industry, refine financial value chains, and deliver a more dynamic and resilient financial services ecosystem.

### Industry Trendline

Over 400 digital-only banks globally backed by ~ \$32 billion in venture capital funding disrupted traditional models in the past decade

Embedded finance revenues will surge 148%, from \$92 billion in 2024 to \$228 billion by 2028

Cross-industry platforms will reshape banking into integrated experiences, with McKinsey highlighting five growth arenas, including BaaS and investment advisory

### Banks to strike balance between innovation and optimization with Cloud in 2025

Digital-only proposition: Experimentation to execution

Embedded banking: Disruptive concept to a core growth driver

Marketplaces: Banks as service providers to ecosystems orchestrators

# Digital-Only Propositions

The past decade has seen a surge of digital-only banks, with around 400 licensed neobanks launched globally. These institutions, backed by approximately \$32 billion in venture capital funding from 2017 to 2021, disrupted traditional banking models by prioritizing customer experience, scalability, and innovation. However, the era of novelty is transitioning into one of accountability, where digital banks must deliver profitability and sustainable growth.

In 2025 and beyond, the digital-only proposition will continue to evolve from experimentation to execution. Leading digital banks are focusing on leveraging economies of scale to enhance profitability per customer. By adopting cloud-native architectures and modular systems, these banks can streamline operations, reduce costs, and achieve profitability boost. Additionally, they are expanding their presence across multiple markets, transitioning from localized players to regional champions capable of replicating success across geographies.

Digital-only banks are also diversifying their revenue streams by productizing their technological capabilities, operational expertise,

and data assets. Offerings like Banking-as-a-Service (BaaS) and non-financial services are becoming critical components of their strategy. This shift enables them to embed their solutions into broader ecosystems, such as e-commerce or healthcare, effectively creating new touchpoints and expanding their customer base.

However, challenges persist. Many neobanks struggle with profitability as investor sentiment shifts. To thrive, digital-only banks must optimize customer acquisition costs, refine their monetization strategies, and embed emerging technologies like generative AI and Web3 to stay ahead of traditional players closing the digital gap. The future belongs to those that balance scale, innovation, and sustainability.



## Case-in-Point

RCBC Pulz was conceived to provide underbanked and unbanked Filipinos belonging to the mass affluent segment an access to a digital banking solution that corresponded to their need for convenient access to high-quality banking. By transforming RCBC Pulz into a digital concierge, this ensured that mass affluent Filipinos had a hyper personalized experience. Since its relaunch as RCBC Pulz, the digital solution saw a 27% surge in transaction volume and 34% increase in transaction value. For interbank transactions powered by Instapay, RCBC Pulz saw a 33% increase in transaction value and a 31% increase in transaction volume.

Game on Deposit is a one-of-its-kind gamified fixed deposit by Liv, which is a digital-only bank powered by Emirates NBD, a leading banking group in MENAT. The innovative deposit allows customers to secure the market's highest interest rate by predicting the winners of sports tournaments. To participate, customers only need to select the team they think will win the tournament while opening the deposit. If their selected team wins, they earn 10% p.a. interest. If it reaches the semi-finals, they receive 5% p.a. interest. If neither, they still earn a 2.3% p.a. interest.

# Embedded Banking / Banking-as-a-Service (BaaS)

Embedded banking has progressed from a disruptive concept to a core growth driver for the financial services industry. By 2025, embedded finance revenues are projected to grow 148%, from \$92 billion in 2024 to \$228 billion by 2028. This trajectory underscores the pivotal role of embedding financial services into third-party platforms, from e-commerce marketplaces to ERP systems.

Banks that have already established embedded offerings must now scale and diversify. The focus is no longer solely on enabling payments or accounts but expanding into credit, insurance, and investment services seamlessly woven into everyday digital experiences. Consumer credit is increasingly shifting toward embedded lending models, driven by frameworks like PSD3 in Europe, India's OCEN, and co-lending regulations that reduce underwriting costs and accelerate loan delivery.

Digital public infrastructure plays a vital role in enabling embedded banking. Platforms such as India's UPI and Singapore's digital identity frameworks reduce onboarding friction and provide compliant data-sharing channels.

Multi-rail payment systems are gaining prominence as embedded finance providers integrate multiple open banking APIs to enable seamless and cost-efficient transactions, especially for bulk disbursements and cross-border payments. The adoption of embedded financial services among businesses is further accelerated by comprehensive product offerings, including consolidated APIs for international payments and cloud-based accounting solutions.

To differentiate, banks must evolve from simple integrations to building composable, event-driven architectures that enable scalability and real-time responsiveness. Advanced analytics and AI are crucial for delivering personalized, scenario-based solutions, such as point-of-sale financing or SME credit. Banks must also continue to refine their partner ecosystems, using data insights to maximize profitability and deepen customer engagement.

The regulatory landscape remains complex. Sponsor banks face increasing scrutiny, with compliance challenges often becoming bottlenecks. Successful banks will address these challenges by strengthening their governance frameworks, enhancing cybersecurity, and prioritizing partner onboarding processes. Embedded banking offers vast growth potential, but only for those willing to invest in advanced infrastructure, seamless customer experiences, and a robust ecosystem strategy.



## Case-in-Point

UnionBank of the Philippines (Samsung Finance+): Entered the Buy Now Pay Later (BNPL) space, offering instant gadget loans with a fully digital experience.

Kasikorn Line, Thailand, a joint venture between Kasikorn Bank and Line, launched a range of banking services that are offered via messaging app LINE BK.



# Marketplaces

Marketplaces represent a transformative business model where banks transition from service providers to orchestrators of ecosystems that cater to a broad range of customer needs. In 2025 and beyond, cross-industry platforms will dominate, breaking down traditional value chains and creating integrated experiences. Banks that continue to embrace marketplaces can unlock higher margins, new revenue streams, and enhanced customer loyalty.

The marketplace model is evolving beyond simply aggregating products; banks are increasingly looking to create curated ecosystems. For example, a home-buying marketplace might integrate mortgage solutions, real estate listings, legal services, and insurance. Such offerings align with customer journeys, providing convenience and value while generating diverse income streams for the bank.

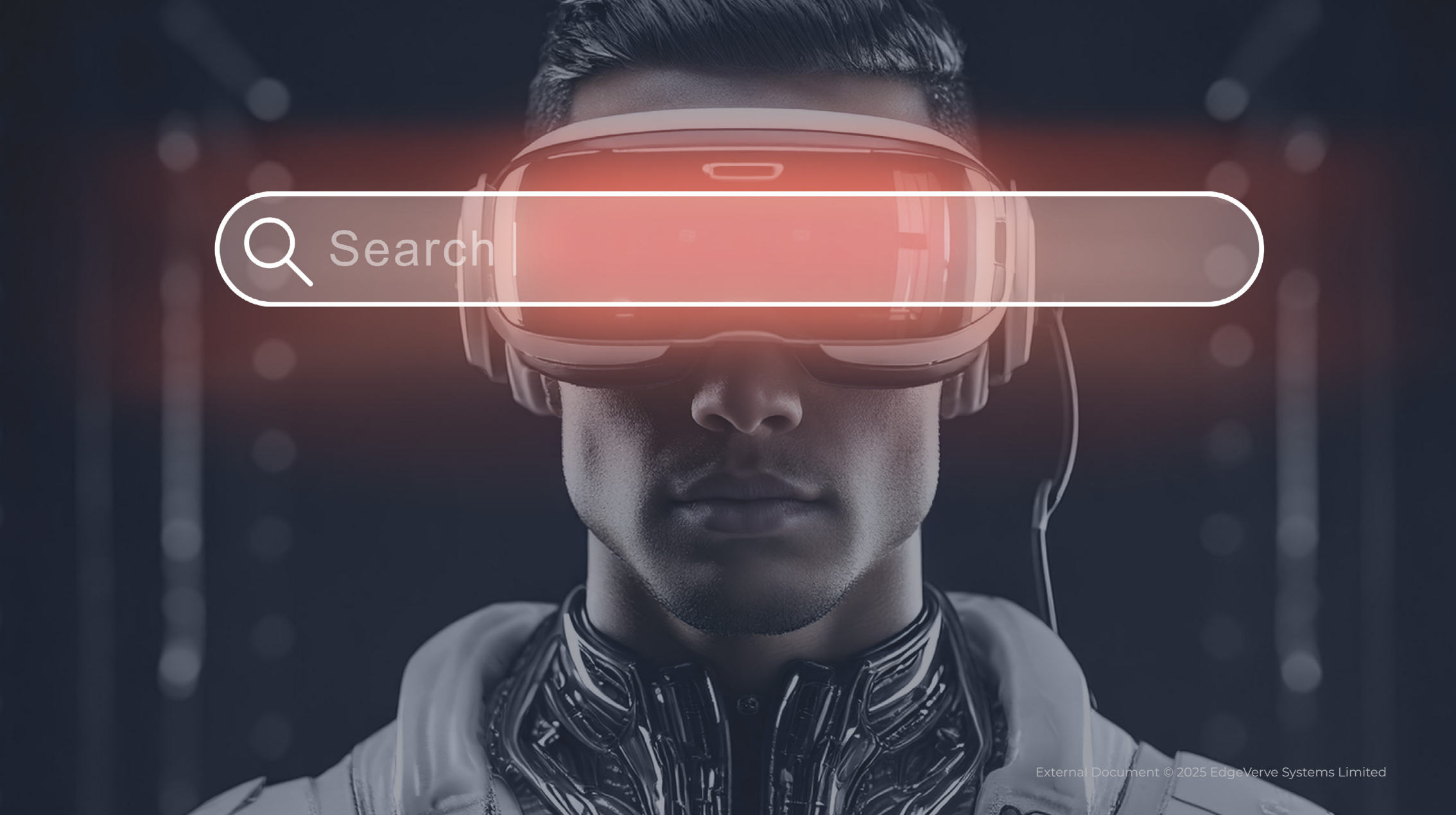
Banks that excel in this space leverage advanced analytics to understand customer behaviors and preferences. Predictive insights allow them to recommend tailored solutions, from ESG investments to micro-savings apps, enhancing engagement and driving cross-sell opportunities. Real-time data integration ensures marketplaces evolve in line with customer needs.

Collaboration is a cornerstone of success. Banks must build strong partnerships with fintechs, insurers, and service providers, enabling seamless integration of third-party offerings. A foundational API-driven architecture,

robust partner onboarding frameworks, and automated compliance checks ensure scalability and agility.

However, marketplaces require strategic specialization. McKinsey identifies five arenas for growth, including everyday banking, investment advisory, complex financing, mass wholesale intermediation, and banking as a service (BaaS). Banks must choose areas where they can leverage their strengths while aligning with broader ecosystem opportunities.

The transition to marketplaces demands overcoming legacy challenges, such as outdated core systems and siloed operations. By investing in modular, cloud-native architectures and embedding sustainability into their models, banks can create resilient and future-proof ecosystems. Those that succeed will redefine the customer experience, cementing their role as essential nodes in the evolving financial value chain.



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## Case-in-Point

The Westpac and ShopBack partnership gives customers a more rewarding way to shop. Customers can earn bonus cashback by shopping ShopBack offers, in the Westpac app or via the Westpac Lounge in the ShopBack app, using a Westpac credit or debit card. Westpac engagement analysis show that over 70% of customers interacting with the program are Millennials, proving that the proposition is resonating with the original brief and target audience.

Introducing D-Verse by BPI! A secure NFT marketplace where customers can buy digital art, sports, and collectables using fiat currency. Powered by blockchain for authenticity, it's designed to be user-friendly, bridging accessibility gaps in finance. D-verse represents a new business opportunity for BPI in tokenized asset markets, diversifying the Bank's revenue streams.



# The Path Ahead

The evolution of business models in banking reflects the industry's ongoing transformation to meet the demands of a dynamic, digital-first world. From digital-only propositions reimagining direct customer engagement, to embedded banking integrating financial services seamlessly into everyday platforms, and marketplaces orchestrating holistic ecosystems, these models are reshaping the financial landscape. Success lies in the ability of banks to not only adopt these models but to continually innovate, scale, and adapt them to changing customer expectations and technological advancements. Banks that invest in advanced capabilities, foster strategic partnerships, and leverage data-driven insights will not only thrive in this competitive environment but also redefine their role as essential enablers of value in the modern financial ecosystem. The future of banking belongs to those who dare to lead this transformation with agility, foresight, and a commitment to delivering unparalleled customer value.



# Why we exist

To inspire better banking so that billions of people and businesses can save, pay, borrow, and invest better.

# How we do it

Our solutions and people help banks to engage, innovate, operate and transform better, so that they can improve their customers' financial lives, better.

# What we offer

A comprehensive suite of industry-leading digital banking solutions and SaaS services that help banks engage, innovate, operate and transform better.

Finacle is an industry leader in digital banking solutions. We are a unit of EdgeVerve Systems, a wholly-owned product subsidiary of Infosys (NYSE: INFY). We partner with emerging and established financial institutions to help inspire better banking. Our cloud-native solution suite and SaaS services help banks engage, innovate, operate, and transform better to scale digital transformation with confidence. Finacle solutions address the core banking, lending, digital engagement, payments, cash management, wealth management, treasury, analytics, AI, and blockchain requirements of financial institutions. Today, banks in over 100 countries rely on Finacle to help more than a billion people and millions of businesses to save, pay, borrow, and invest better.



For more information, contact [finacle@edgeverve.com](mailto:finacle@edgeverve.com)

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